

Mr. President, I come to the floor to speak about watch-dogging the watchdogs -- as I have done many times in the past.

I first started watch-dogging the Pentagon back in the early 1980s when President Reagan was ramping up the defense budget. A group of defense reformers were examining the pricing of spare parts, and we uncovered some real horror stories – like \$750 toilet seats and \$695 ashtrays for military aircraft.

As news reports of these horror stories were hitting the street, offices of inspectors general (OIG) were sprouting up in every federal agency. The Defense Department (DOD) OIG officially opened for business on March 20, 1983. Today, thanks to the IG Act of 1978 and the taxpayers, we now have an army of watchdogs. This mushrooming IG bureaucracy is expensive. It costs over \$2 billion a year, but it now occupies a pivotal oversight position within the government.

As a Senator dedicated to watch-dogging the taxpayers' precious money, I look to the IG's for help. I just don't have the resources to investigate every allegation that comes my way. Like other members of Congress, I regularly tap into this vast reservoir of investigative talent. We count on them. We put our faith and trust in their independence and honesty. We rely on them to root out and deter fraud and waste in the government where ever it rears its ugly head.

If the IGs are on the ball, then the taxpayers aren't supposed to worry about things like a \$750 toilet seat.

But I underscore the word **IF**, Mr. President, because fraud and waste are still alive and well in the government.

How can this be? We created a huge army of watchdogs, yet fraud and waste still exist unchecked. So I keep asking myself the same question: Who is watch-dogging the watchdogs?

True, there is an IG watchdog agency called the Council of the Inspectors General on Integrity and Efficiency, but that's just another toothless wonder.

So the Senator from Iowa has that duty today. I am here to present another oversight report on the Pentagon watchdog.

I call it the Report Card on the FY 2010 Audits issued by the DOD OIG. It assesses progress toward improving audit quality in response to recommendations I made in an oversight report last year.

After receiving a series of anonymous letters from whistleblowers alleging gross mismanagement in the OIG Audit Office, my staff initiated an in-depth oversight review. It focuses on audit reporting by that office and began two years ago.

On September 7, 2010, I issued my first oversight review. It evaluated the 113 audit reports issued in FY 2009. It determined that OIG audit capabilities, which cost the taxpayers about \$100 million a year, were gravely impaired.

As a watchdog, degraded audit capabilities give me serious heartburn for one simple reason. It puts the taxpayers' money in harm's way. It leaves huge sums of money vulnerable to theft and waste.

Audits are the IG's primary tool for rooting out fraud and waste. Audits are the tip of the IG spear. A good spear always needs a finely honed cutting edge. Right now, the point of that spear is dull. The IG's audit weapon is disabled.

In speaking about my first report here on the floor on September 15th, I urged IG Heddell to "hit the audit re-set button" and get audits to re-focus on the core IG mission of detecting and reporting fraud and waste. My report offered 12 specific recommendations for getting the audit process back on track and lined up with the IG Act.

The OIG response to my report has been very positive and constructive.

In a letter to me dated December 17, 2010, IG Heddell promised to "transform the Audit organization," consistent with recommendations in my report.

The newly appointed Deputy IG for Auditing, Mr. Dan Blair, produced a roadmap, pointing the way forward. Blair's report -- dated December 15th -- laid out a plan for improving the "timeliness, focus, and relevance of audit reports." He promised to create a "world-class oversight organization providing benefit to the Department, the Congress, and taxpayer."

As part of the response to my report, the Audit Office also tasked two independent consulting firms -- Qwest Government Services and Knowledge Consulting Group -- to conduct an organizational assessment of the Audit Office and its reports.

These independent professionals seemed to reach the very same conclusions I did. The Qwest Report – issued in October 2010 -- put it this way: “We do not believe Audit is selecting the best audits to detect fraud, waste, and abuse.” The auditors, the Qwest report states, have lost sight of that goal and “need to step back and refocus on the IG’s core mission.”

Mr. President, that is exactly what I saw last year and what I continue to see today.

All of the signals coming from the IG’s office are encouraging. They tell me that I am on the right track.

The big question before us is this: When will the promised reforms begin to pop up on the radar screen?

The FY 2010 reports examined in my Report Card were issued between October 2009 and September 2010. They were “set in concrete” – so to speak -- long before Mr. Blair’s transformation plan was approved. So the full impact of those reforms will not begin to surface in published reports until later this year – or in the FY 2011-12 reports. However, that is not to say that some improvement is not possible anytime now, since discussions regarding the need for audit reform actually began in June 2009.

As you will soon see, Mr. President, there is no sign of sustained improvement – not yet today, but a faint glimmer of light can be seen on distant horizons.

In order to establish a solid baseline for assessing the IG's transformation effort, my staff has taken another snapshot of recent audits.

My latest oversight review is best characterized as a Report Card, cause that is exactly what it is.

Each of the 113 unclassified audits issued in FY 2010 was reviewed, evaluated, and graded in five categories as follows: Category #1 - Relevance; # 2 - Connecting the dots on the money trail; # 3 - Strength and accuracy of recommendations; #4 - Fraud and waste meter; and #5 - Timeliness.

Grades of A to F were awarded in each category. To average, it was necessary to use numerical grades of 1 to 5 and then convert those to standard A to F grades. Scoring was based on answers to key questions like:

- Was the audit aligned with the core IG mission?
- Did the audit connect all the dots in the cycle of transactions from contract to payments?
- Did the audit verify the scope of alleged fraud and waste using primary source accounting records?
- Were the recommendations tough and appropriate?
- How quickly was the audit completed?

Then each report was given a score called the Junkyard Dog Index. That is an overall overage of the grades awarded in the five evaluation categories.

For grading timeliness, the following procedure was used: Audits completed in 6 months or less received a grade of A; Those completed in 6 to 9 months a B; Those completed in 9 to 12 months a C; Those taking 12 to 15 months a D; and those that took over 15 months, an F.

After each report was graded individually, all the scores for each report in each rating category were added up and averaged to create a composite score for all 113 audit reports.

The overall composite score awarded to the 113 reports was a D minus. This is very low, indeed. Admittedly, the grading system used is subjective and imperfect. However, as inexact as it may be, my oversight staff has determined that it is a reasonable or rough measure of audit quality. And right, now overall audit quality is poor.

The low mark is driven by pervasive deficiencies that surfaced in every report examined – with 15 notable exceptions. Those deficiencies are the same ones pinpointed in the Qwest Report. Instead of being hard-core, fraud-busting contract and financial audits, most reports were policy and compliance reviews having no redeeming value whatsoever. Quite simply, the auditors were not on the “money trail” 24/7 where they need to be to root out fraud and waste as mandated by the IG Act.

There is one bright spot, however. The auditors got it mostly right in 5 reports and partially right in 10 other reports. Clearly, this is a drop in the bucket. But these 15 reports, which constituted just 13% of total FY 2010 output, prove that the Audit Office is capable of producing quality reports.

The 15 best reports earned grades of good to very good overall with excellent grades in several categories. They involved some very credible and commendable audit work. Each one deserves a gold star.

While the top 5 reports earned overall scores of C+ to B minus, those scores would have been much higher were it not for long completion times. The average time to complete the top five reports was 21 months. Long completion times make for stale information and irrelevant reports.

Had they been completed in 6 months, for example, they could have earned high B+ scores. Such long completion times clearly show that doing nitty gritty down-in-the-trenches audit work requires larger audit teams – **IF [emphasis need]** they are to be completed in a reasonable length of time.

Right now there are no specified goals for audit completion times. They are desperately needed. And then audit teams can be organized with the right skill sets to meet those goals.

Mr. President, my report includes 7 individual report cards – 6 on the best reports and 1 on the worst report.

I think the best way for my colleagues to understand my Audit Report Card is to briefly walk through two of them -- the best and worst reports.

The highest grade was awarded to the audit entitled:
Foreign Allowances and Differentials Paid to DOD Civilian Employees Supporting Overseas Contingency Operations.

This report examined the accuracy of \$213 million in payments to 11,700 DOD civilians in FY 2007-2008 for overseas “danger and hardship” allowances. After reviewing the relevant payment records, the auditors determined that the Defense Finance and Accounting Service or DFAS had made improper payments – underpayments and overpayments – totaling \$57.7 million. The audit recommended that the DFAS Director “take appropriate corrective action to reimburse or recover the improper payments” and that new policies and procedures be put in place to preclude erroneous payments in the future.

This report received an overall grade of B minus. However, it received excellent grades -- A minuses -- in 3 categories -- Relevance, Connecting the Dots on the Money Trail, and Fraud and Waste Meter. But it earned a B minus for incomplete recommendations and an F for timeliness. It took far too long to complete.

The auditors went to primary source pay records to verify the exact amounts of erroneous payments. That move is one reason why this report earned such high scores. Very few audits – just a handful - actually verified dollar amounts using primary source accounting records.

The recommendations were good but did not go far enough. Recommending recovery or reimbursement of over- and under-payments was worth a B minus but responsible officials were not identified and held accountable for the sloppy accounting work that produced \$57.7 million in erroneous payments.

Did the Audit Office follow up to determine whether the DFAS Director had taken steps to reimburse underpayments and to recover the overpayments? The answer is probably: No. In fact, nothing has been done. On February 23, 2011, in response to a question from my office, DFAS reported DOD is still “developing a policy” to fix the problem, and once that process is completed, DFAS will “take appropriate corrective action to reimburse or initiate collection action.”

When auditors make good recommendations – like here in this audit, and nothing happens, it’s like they “are howling in the wilderness.” That must be demoralizing.

At this late hour, the probability of correcting these mistakes is fading fast. For starters, this audit work began over two years ago. Couple that with the fact that it looked at payments made in 2006. That’s 5 years ago. With the passage of so much time, this has become essentially an academic exercise.

This is exactly why reports need to focus on current problems, and why they must be completed promptly. And that is exactly why this one, which took 16 months to complete, earned an F for timeliness – but otherwise very good.

The rest of the audits examined in my Report Card – 98 in all or 87% of total output in FY 2010 – were of poor quality and earned grades of D or F.

These are prime examples of kinds of audits targeted in the Qwest Report. They were not designed to detect fraud and waste. They did not document and verify financial transactions.

They were not on the “money trail” where they needed to be and where their audit manuals tell auditors to go to detect fraud and waste. They did not audit what truly needs to be audited. They had little or no monetary value or impact.

Some were mandated by Congress, including 27 memo-style audits of “Stimulus” projects. Tiger teams should have been formed to tackle these audits. Unfortunately, the exact opposite happened. These were worst-of-the-worst. They contained no findings of any consequence. They offered few – if any – recommendations. Most did not even identify the costs of the projects audited. The taxpayers were deeply concerned about the value of these so-called “shovel-ready” jobs. They were looking for aggressive oversight. They wanted assurance that huge sums of money were not wasted. They got none of that!

Instead of probing audits, the taxpayers got the equivalent of an IG stamp of approval -- Like a rubber stamp that reads OK, approved!

Mr. President, I will now review the worst report. It typifies the ineffectiveness and wastefulness of the bulk of FY 2010 audit production. I remind my colleagues: Each one of these reports costs an estimated \$800,000.00.

The report that received the lowest score is entitled **Defense Contract Management Agency Acquisition Workforce for Southwest Asia**. It received an F score in every category across-the-board.

The purpose of this report was to determine whether the Defense Contract Management Agency (DCMA) had adequate manpower to oversee contracts in Southwest Asia. It concluded that DCMA was unable to determine those requirements, and there was no plan for doing it. The report recommended that DCMA “define acquisition workforce requirements for Southwest Asia.”

This is one of many OIG policy reviews, but this one is unique in that it took 18 months to review a policy that did not even exist. This audit should have been terminated early on, but as the Qwest Report points out, OIG has no process “for stopping audits that are no longer relevant.” It’s like a runaway train. And what redeeming value did this report offer to the taxpayers? None that I can see.

This is the stuff for a DOD staff study or think tank analysis -- not an independent OIG audit.

This audit – like so many others like it – did not focus on fraud and waste, and, not surprisingly, found none. DCMA has a long history of exercising lax contract oversight. OIG resources would have been better spent auditing one of DCMA’s \$1.3 trillion in contracts.

The inclusion of individual report cards on the best and worst audits is meant to be a constructive, educational exercise. I am hoping the analyses accompanying these report cards will serve as a guide and learning tool for auditors and management alike.

Mr. President, I am hoping the auditors will read my report and use it to sharpen their skills. I hope it will help to guide them on the path to reform and transformation.

If the auditors adopt and follow the simple guidelines used to gage the quality of the best and worst reports, they will begin producing top-quality audits that are fully aligned with the core IG mission prescribed in law.

Before wrapping up my speech, I would like to call the attention of my colleagues to several very interesting charts presented in the final section of my Report Card. They appear in the chapter entitled “Comparative Performance with other OIG Audit Offices.”

These two sets of graphs highlight striking contrast.

They show that DOD auditors are being significantly outperformed by their peers at three other agencies – the Departments of Health and Human Services (HHS), Housing and Urban Development (HUD), and Homeland Security (DHS) -- and by very substantial margins, indeed. Their peers may be five times more productive than they are and able to produce audits at one quarter of their costs.

I need to offer one caveat here.

While I have reviewed comparative cost and productivity data from all four audit offices, I have not evaluated the quality of the reports issued by the other three OIGs – HHS, DHS and HUD – as I did in the DOD Report Card.

I happen to think it is fair apples-to-apples comparison, but it may not be. I don't know for sure.

Deputy IG for Auditing Blair needs to provide a satisfactory explanation for these apparent disparities. Otherwise, he may need to “hit the re-set button” on audit production and costs, as well.

While IG Heddell cannot be happy with an overall audit grade of D minus, I think he understands the problem. And I believe he is taking the right steps to fix it.

His apparent commitment to audit reform and Mr. Blair's promise to create “a modern, world-class” audit oversight organization are music to my ears. They bode well for the future.

For right now today, though, I cannot report that I see sustained improvement in audit quality -- not yet -- not by a long shot, but the signals coming my way are all good. A ray of hope can be seen on the distant horizon. Maybe we'll see it in the next batch of audits.

The 15 best reports show that the DOD OIG Audit Office is capable of producing quality reports. That number is obviously just a drop in the bucket, but these fine reports could be a solid foundation for building the future. Repeat them ten times, and Mr. Blair could be well on his way to creating a “world-class” audit operation -- one that would be capable of detecting and deterring fraud and waste.

Mr. President, before those lofty goals can be achieved, Mr. Heddell and Mr. Blair need to tear down some walls. I call them the **TOP NINE AUDIT ROADBLOCKS. They are:**

- 1) Top management lacks a clear and common vision of and commitment to the IG's core mission – a problem that adversely affects every aspect of auditing;
- 2) Most audits are policy compliance reviews that yield zero financial benefits to the taxpayers;
- 3) Auditors are not on the “money trail” 24/ where they need to be to detect fraud and waste;
- 4) Auditors consistently fail to verify potential fraud and waste by connecting all the dots in the cycle of transactions; they need to match contract requirements with deliveries and payments using primary source documents; By making these match-ups, auditors will be positioned to address key oversight questions: Did the government receive what it ordered at the agreed-upon price and schedule; or did the government get ripped off, and if so, by how much money?
- 5) Most audits take so long to complete that they are stale and irrelevant by the time they are published; Reasonable time-to-complete goals need to be set and then audit teams can be organized with the right skill sets to meet those goals;

- 6) Until the DOD accounting system is fixed, complex audits will require large audits teams if reports are to be completed within a reasonable length of time;
- 7) Audit findings and recommendations are usually weak; responsible officials are rarely held accountable; and wasted or stolen money is rarely recommended for recovery or return to the Treasury;
- 8) While relentless follow-up is an important part of audit effectiveness, it is not practiced by the Audit Office;
- 9) Since DOD's broken accounting system is obstructing the audit process, contracts designed to fix that system need to be assigned a much higher audit priority;

These mighty barriers stand between all the promises and reality. IG Heddell and Mr. Blair must find a way to tear down these walls. Otherwise audit reform and transformation will never happen.

These unresolved issues will demand tenacious watchdogging by my oversight team and by all other oversight bodies, as well, including the Committees on Armed Services and Appropriations.

Mr. President, my oversight staff will keep reading and evaluating OIG audits until steady improvement is popping up on my oversight radar screen everyday.

I yield the floor.